OpenFed

POLICY STATEMENT | April 11, 1994

PREDICTED FED DECISION +25 bps

3.75%

OPENFED OPTIMAL RATE HOLD

3.50%

KEY TAKEAWAY

The Committee unanimously expects the real Fed to raise rates 25 bps, while its own framework judges the optimal move to be no change (0 bps), with four members endorsing that hold and one preferring easing.

STATEMENT

Information reviewed at this meeting showed core PCE inflation at 2.25%, modestly above the 2.0% objective, alongside unemployment at 6.5%, well above the estimated 5.45% natural rate. Growth appeared near or slightly above trend, with the Chicago Fed activity index at 0.26 and initial jobless claims of 349,000 giving no signal of deterioration. Financial conditions were calm across the board: the stress index stood at 0.0762, the VIX at 16.61, the Baa spread at 1.59, and the 10-year/2-year curve remained positively sloped at 1.49 with no inversion. The 3-month T-bill sat just 0.04 above the current 3.5% rate, which participants read as evidence that markets had largely absorbed the prior meeting's tightening and were pricing little further urgency in either direction.

On the question of what the real Federal Reserve is likely to do, all five members converged on a 25 bps increase. The reasoning built on the prior meeting's firming action and a modest but genuine inflation overshoot, with participants judging that calm markets could absorb a measured step without disruption and that the flat T-bill spread argued against anything larger. Several members emphasized that above-target inflation and above-trend activity favored continued gradual normalization; others stressed that the persistent labor slack ruled out an aggressive 50 bps move. The one member most focused on employment resisted, noting that further restriction while unemployment sits more than a full point above the natural rate is premature, but conceded the absence of any deterioration signal — no rising claims, no negative activity reading, no inverted curve — left no basis for a cut against a clear tightening consensus.

The Committee's own deterministic framework reached a different conclusion, identifying the optimal move as 0 bps — a hold. Here real tension surfaced within the reference rules themselves: the Taylor rule, the balanced-approach rule, and the ELB-adjusted rule all prescribed -75 bps, driven by the large unemployment gap, while the first-difference rule returned 0 bps. The loss-minimizing output sided with the latter, with an assumed r* of 0.8 and small momentum terms — inflation momentum of 0.15 and unemployment momentum of 0.1 — indicating conditions that are drifting rather than lurching. Participants found the first-difference logic most persuasive precisely because momentum is subdued: a 75 bps swing would chase a level gap and risk jolting orderly credit markets, and easing into inflation that sits above target with positive momentum was judged unwise. What emerged was a stance read as roughly neutral, near the estimated r*, with the framework's hold rejecting the level rules' aggressive easing on one side and a fresh hike on the other.

Taken together, the predictive 25 bps and the optimal 0 bps differ by a single incremental move, a gap the Committee characterized as one of degree rather than direction — both reject the large easing the level rules imply. The Committee expects the real Federal Reserve to continue its gradual firming with a 25 bps hike, while judging that its own loss-minimizing framework supports holding at 3.5% this meeting, allowing incoming data to clarify whether inflation momentum persists before adjusting further.

COMMITTEE VOTE

The predictive vote was unanimous at 5-0 for a 25 bps increase. On the framework's 0 bps recommendation, the optimal-side deliberation landed 4-1 in favor: four members endorsed the hold as-is, and one gave partial support, agreeing with the direction away from further tightening but preferring easing.

NOTES

The member most focused on employment endorsed the hold only partially, arguing that with unemployment at 6.5% — more than a full point above the 5.45% natural rate — the level rules' -75 bps prescription better reflected the slack; this member viewed a hold as a floor that at least halts added restriction, while judging its magnitude short of the easing the wide employment gap justified.